

**REPORT OF THE AUDIT OF THE  
MADISON COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2015**



**MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**

**AUDIT OF THE**  
**MADISON COUNTY FISCAL COURT**

**June 30, 2015**

The Auditor of Public Accounts has completed the audit of the Madison County Fiscal Court for fiscal year ended June 30, 2015.

We have issued an unmodified opinion, based on our audit on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Madison County, Kentucky. In accordance with OMB Circular A-133, we have issued a qualified opinion on the compliance requirements that are applicable to Madison County's major federal program: Chemical Stockpile Emergency Preparedness Program (CFDA 97.040).

**Financial Condition:**

The Madison County Fiscal Court had total receipts of \$27,660,834 and disbursements of \$28,067,054 in fiscal year 2015. This resulted in a total ending fund balance of \$7,467,071, which is a decrease of \$406,220 from the prior year.

**Report Comments:**

- 2015-001 Madison County Fiscal Court's Internal Control Procedures Over Expenditures Failed Resulting In Questioned Costs
- 2015-002 Madison County Fiscal Court Did Not Have Controls In Place To Ensure The Schedule Of Expenditures Of Federal Awards Accurately Reported Federal Program Expenditures
- 2015-003 Madison County Fiscal Court Did Not Comply With Bidding Requirements
- 2015-004 Madison County Fiscal Court Had Negative Bank Balances During The Fiscal Year
- 2015-005 Madison County Jail Did Not Prepare An Accurate Financial Statement
- 2015-006 Madison County Fiscal Court Did Not Properly Handle Disbursement Transactions
- 2015-007 The Madison County Battlefield Golf Course Manager Is Receiving Golf Lesson Fees And Conducting Outside Employment During County Work Hours
- 2015-008 Madison County Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll
- 2015-009 Madison County Fiscal Court Did Not Have Adequate Controls Over Program Income
- 2015-010 Madison County Fiscal Court's Internal Control Procedures Over Expenditures Failed Resulting In Questioned Costs (See Financial Statement Finding 2015-001)
- 2015-011 Madison County Fiscal Court Did Not Have Adequate Controls Over Program Income (See Financial Statement Finding 2015-009)

**Deposits:**

The Fiscal Court deposits were insured and collateralized by bank securities.



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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky  
Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
Honorable Reagan Taylor, Madison County Judge/Executive  
Members of the Madison County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Madison County, Kentucky, for the year ended June 30, 2015, and the related notes to the financial statement, which collectively comprise the Madison County Fiscal Court's financial statement as listed in the table of contents.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described more fully in Note 1, the financial statement is prepared by Madison County, Kentucky on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Madison County, Kentucky as of June 30, 2015, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of Madison County, Kentucky as of June 30, 2015, and its cash receipts and disbursements, for the year then ended, in accordance with the accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

### **Emphasis of Matters**

As discussed in Note 10 to the financial statements, the entity has had numerous significant transactions with businesses controlled by, and with people who are related to, the officers and directors of the entity. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Madison County Fiscal Court. The budgetary comparison schedules, capital asset schedule, and the Schedule of Expenditure of Federal Awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.



To the People of Kentucky  
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 William M. Landrum III, Secretary  
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### **Other Matters (Continued)**

The accompanying budgetary comparison schedules, capital asset schedule, and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules, capital asset schedule, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statement as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated February 02, 2016 on our consideration of Madison County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Madison County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying schedule of findings and questioned costs included herein, which discusses the following report comments:

- 2015-001 Madison County Fiscal Court's Internal Control Procedures Over Expenditures Failed Resulting In Questioned Costs
- 2015-002 Madison County Fiscal Court Did Not Have Controls In Place To Ensure The Schedule Of Expenditures Of Federal Awards Accurately Reported Federal Program Expenditures
- 2015-003 Madison County Fiscal Court Did Not Comply With Bidding Requirements
- 2015-004 Madison County Fiscal Court Had Negative Bank Balances During The Fiscal Year
- 2015-005 Madison County Jail Did Not Prepare An Accurate Financial Statement
- 2015-006 Madison County Fiscal Court Did Not Properly Handle Disbursement Transactions
- 2015-007 The Madison County Battlefield Golf Course Manager Is Receiving Golf Lesson Fees And Conducting Outside Employment During County Work Hours
- 2015-008 Madison County Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll
- 2015-009 Madison County Fiscal Court Did Not Have Adequate Controls Over Program Income
- 2015-010 Madison County Fiscal Court's Internal Control Procedures Over Expenditures Failed Resulting In Questioned Costs (See Financial Statement Finding 2015-001)

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Members of the Madison County Fiscal Court

**Other Reporting Required by Government Auditing Standards (Continued)**

2015-011 Madison County Fiscal Court Did Not Have Adequate Controls Over Program Income (See Financial Statement Finding 2015-009)

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Mike H", with a long horizontal stroke extending to the right.

Mike Harmon  
Auditor of Public Accounts

February 02, 2016

MADISON COUNTY OFFICIALS

For The Year Ended June 30, 2015

**Fiscal Court Members:**

Reagan Taylor	County Judge/Executive
Roger Barger	Magistrate
Tom Botkin	Magistrate
Larry Combs	Magistrate
John Tudor	Magistrate

**Other Elected Officials:**

Marc Robbins	County Attorney
Doug Thomas	Jailer
Kenny Barger	County Clerk
Darlene Snyder	Circuit Court Clerk
Mike Coyle	Sheriff
Billy Ackerman	Property Valuation Administrator
James A Cornelison	Coroner

**Appointed Personnel:**

Glenna Baker	County Treasurer
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**MADISON COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**

**For The Year Ended June 30, 2015**

**MADISON COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**

**For The Year Ended June 30, 2015**

	<b>Budgeted Funds</b>		
	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>
<b>RECEIPTS</b>			
Taxes	\$ 8,632,626	\$	\$
Excess Fees	1,270,927		
Licenses and Permits	235,566		
Intergovernmental	1,291,319	2,911,663	871,073
Charges for Services	407,626	753,573	98,671
Miscellaneous	823,986	212,336	281,176
Interest	92,276	287	46
Total Receipts	<u>12,754,326</u>	<u>3,877,859</u>	<u>1,250,966</u>
<b>DISBURSEMENTS</b>			
General Government	3,559,078		
Protection to Persons and Property	1,445,307		2,543,937
General Health and Sanitation	591,382		
Social Services	359,300		
Recreation and Culture	714,699		
Roads		3,717,825	
Other Transportation Facilities and Services	20,000		
Debt Service	809,222		
Capital Projects	403,585		
Administration	2,195,892	412,555	398,132
Total Disbursements	<u>10,098,465</u>	<u>4,130,380</u>	<u>2,942,069</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>2,655,861</u>	<u>(252,521)</u>	<u>(1,691,103)</u>
<b>Other Adjustments to Cash (Uses)</b>			
Transfers From Other Funds		300,000	1,700,000
Transfers To Other Funds	(1,700,000)		
Total Other Adjustments to Cash (Uses)	<u>(1,700,000)</u>	<u>300,000</u>	<u>1,700,000</u>
Net Change in Fund Balance	955,861	47,479	8,897
Fund Balance - Beginning (Restated)	5,155,019	264,114	70,649
Fund Balance - Ending	<u>\$ 6,110,880</u>	<u>\$ 311,593</u>	<u>\$ 79,546</u>
<b>Composition of Fund Balance</b>			
Bank Balance	\$ 4,167,280	\$ 129,471	\$ 46,685
Plus: Deposits In Transit	148,454	187,491	59,102
Less: Outstanding Checks	(157,646)	(5,369)	(26,241)
Certificates of Deposit			
Investments	1,952,792		
Fund Balance - Ending	<u>\$ 6,110,880</u>	<u>\$ 311,593</u>	<u>\$ 79,546</u>

The accompanying notes are an integral part of the financial statement.

**MADISON COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2015**  
**(Continued)**

<b>Budgeted Funds</b>			<b>Unbudgeted Fund</b>	
<b>Local Government Economic Assistance Fund</b>	<b>Chemical Stockpile Emergency Preparedness Program</b>	<b>E-911 Fund</b>	<b>Jail Commissary Fund</b>	<b>Total Funds</b>
\$	\$	\$ 805,321	\$	\$ 9,437,947
				1,270,927
				235,566
178,507	7,345,240	246,215		12,844,017
	275	295,916		1,556,061
	19,740	190,743	694,133	2,222,114
1,584	1		8	94,202
180,091	7,365,256	1,538,195	694,141	27,660,834
			681,702	4,240,780
	8,565,313	1,003,482		13,558,039
				591,382
				359,300
			25,852	740,551
				3,717,825
				20,000
		152,458		961,680
				403,585
	173,047	294,286		3,473,912
	8,738,360	1,450,226	707,554	28,067,054
180,091	(1,373,104)	87,969	(13,413)	(406,220)
				2,000,000
(300,000)				(2,000,000)
(300,000)				
(119,909)	(1,373,104)	87,969	(13,413)	(406,220)
658,395	1,505,341	154,272	65,501	7,873,291
\$ 538,486	\$ 132,237	\$ 242,241	\$ 52,088	\$ 7,467,071
\$ 20,001	\$ 139,870	\$ 247,565	\$ 61,382	\$ 4,812,254
				395,047
	(7,633)	(5,324)	(9,294)	(211,507)
518,485				518,485
				1,952,792
\$ 538,486	\$ 132,237	\$ 242,241	\$ 52,088	\$ 7,467,071

The accompanying notes are an integral part of the financial statement.

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TO THE FINANCIAL STATEMENT**

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**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENT**

**June 30, 2015**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The financial statement of Madison County includes all budgeted and unbudgeted funds under the control of the Madison County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, private purpose trust funds and internal service funds that are within the county's control. Unbudgeted funds may also include any corporation to act as the Fiscal Court in the acquisition and financing of any public project which may be undertaken by the Fiscal Court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the Fiscal Court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

**B. Basis of Accounting**

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

**C. Basis of Presentation**

**Budgeted Funds**

The Fiscal Court reports the following budgeted funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the Fiscal Court to maintain these receipts and disbursements separately from the General Fund.

**MADISON COUNTY  
NOTES TO FINANCIAL STATEMENT  
June 30, 2015  
(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Basis of Presentation (Continued)**

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the Fiscal Court to maintain these receipts and disbursements separately from the General Fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Chemical Stockpile Emergency Preparedness Program (CSEPP) - This fund is to be used to improve Madison County's capacity to plan for and respond to accidents associated with storage and ultimate disposal of chemical warfare materials located at the Bluegrass Army Depot. The U.S. Congress appropriates funding for reimbursement of CSEPP disbursements. CSEPP funds may not be commingled with other funds.

E-911 Fund - The purpose of this fund is to account for emergency 911 receipts and disbursements. The sole source of receipts for this fund is a telephone tax.

**Unbudgeted Funds**

The Fiscal Court reports the following unbudgeted fund:

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Commissary Fund.

**D. Budgetary Information**

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the Fiscal Court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Jail Commissary Fund to be budgeted because the Fiscal Court does not approve the expenses of this fund.

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**E. Madison County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Madison County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the Fiscal Court, various cities and special districts within the county, and the Board of Education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of Madison County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**F. Deposits and Investments**

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**G. Long-term Obligations**

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

**Note 2. Deposits and Investments**

**A. Deposits**

The Fiscal Court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 2. Deposits and Investments (Continued)**

**A. Deposits (Continued)**

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**B. Investments**

As of June 30, 2015, the Fiscal Court held investments of \$1,952,792 that are included in the fund balance on the financial statement.

<u>Investments</u>	<u>Value At Cost</u>	<u>Concentration Percentage</u>
<u>Mutual Funds (Unrated)</u>		
Deutsche GNMA Fund Class A Symbol: GGGGX	\$ 472,269	24%
Deutsche Strategic Government Securities Fund Class A Symbol: KUSAX	472,369	24%
Franklin US Government Securities Fund Class A Symbol: FKUSX	1,008,154	52%
Totals	<u>\$ 1,952,792</u>	<u>100%</u>

**Interest Rate Risk.** The county does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates.

**Credit Risk.** KRS 66.480 limits the county's investments in the following:

- Obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government.
- Certificates of Deposit issued by or other interest-bearing accounts of any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity.
- Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency.
- Bankers' acceptances for bank's rate in one of the three highest categories by a nationally recognized rating agency.
- Commercial paper rated in the highest category by a nationally recognized agency.
- Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities.

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 2. Deposits and Investments (Continued)**

**B. Investments (Continued)**

**Credit Risk. (Continued)**

- Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency.
- Shares of mutual funds meeting specific characteristics outlined in the statute.

Also, the County is limited to investing no more than 20% in any one of four specifically mentioned investments as allowed by KRS 66.480. The County had no investment policy that would further limit its investment choices. In general, certificates of deposit are not subject to investment credit risk. The County is invested 100% in mutual funds, which are unrated by credit rating agencies.

**Concentration of Credit Risk.** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of the county's investment in a single issuer. See the above chart for investments that exceed five percent or more of the total investments for the county.

**Custodial Credit Risk.** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the county will not be able to recover the value of its investments held in the possession of an outside party. The county does not have an investment policy for custodial credit risk. The counterparty does provide insurance through Securities Investor Protection Corporation (SIPC) of up to \$500,000 coverage for securities and cash (limit of \$250,000 for cash) per client. As of June 30, 2015, the county's investments were exposed to custodial credit risk.

**Note 3. Transfers**

The table below shows the interfund operating transfers for fiscal year 2015.

	Road Fund	Jail Fund	Total Transfers In
General Fund	\$	\$ 1,700,000	\$ 1,700,000
LGEA Fund	300,000		300,000
Total Transfers Out	<u>\$ 300,000</u>	<u>\$ 1,700,000</u>	<u>\$ 2,000,000</u>

Reason for transfers:

To move resources from the General Fund and LGEA Fund, for budgetary purposes, to the funds that will expend them.

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 4. Operating Lease - Golf Carts Lease**

On June 23, 2015, the Madison County Fiscal Court entered into a 63 month lease agreement with PNC Equipment Finance, LLC for golf carts for the Battlefield Golf Course. The agreement calls for lease payments of \$6,200 due in the months of May through October, beginning September 15, 2015. The outstanding lease balance as of June 30, 2015 was \$198,400:

<u>Fiscal Year Ended June 30</u>	<u>Amount</u>
2016	\$ 24,800
2017	37,200
2018	37,200
2019	37,200
2020	37,200
2021	<u>24,800</u>
Total Minimum Lease Payments	<u>\$ 198,400</u>

**Note 5. Long-Term Debt**

**A. General Obligation Public Project Bonds, Series 2004B**

On October 20, 2004, the Madison County Fiscal Court issued \$5,500,000 of General Obligation Improvement Bonds with interest rates of 2.0% through 4.65%. Principal payments are due annually on April 1 and interest payments are due semi-annually on April 1 and October 1. The proceeds of the bonds were used for the construction of the courthouse annex. During the fiscal year, a portion of these bonds were refinanced with General Obligation Refunding Bonds, Series 2012. As of June 30, 2015, bonds outstanding were \$135,000. Future principal and interest requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 135,000	\$ 2,498
Totals	<u>\$ 135,000</u>	<u>\$ 2,498</u>

**B. General Obligation Refunding Bonds, Series 2012**

On November 21, 2013, the Madison County Fiscal Court issued \$9,530,000 of General Obligation Refunding Bonds, for the purpose of refunding all or a portion of the General Obligation Improvement Bonds, Series 2001; the General Obligation Public Project Bonds, Series 2004; and the General Obligation Improvement Bonds, Series 2004B. Interest rates vary from 0.60% through 3.00%. Principal payments are due annually on March 1 and interest payments are due semi-annually on March 1 and September 1. As of June 30, 2015, bonds outstanding were \$9,005,000. Future principal and interest requirements are:

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 5. Long-Term Debt (Continued)**

**B. General Obligation Refunding Bonds, Series 2012 (Continued)**

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 290,000	\$ 191,620
2017	430,000	189,880
2018	535,000	187,300
2019	440,000	179,275
2020	450,000	172,675
2021-2025	1,970,000	737,075
2026-2030	2,065,000	539,950
2031-2035	2,320,000	281,600
2036	505,000	15,150
Totals	<u>\$ 9,005,000</u>	<u>\$ 2,494,525</u>

**C. Financing Obligations – HVAC System**

On February 12, 1998, the Madison County Fiscal Court entered into a 20-year lease agreement with KADD Financing Trust for the replacement of the HVAC system in the courthouse and related improvements and replacements. On September 30, 2009, the County refinanced this lease for \$430,000 with interest rates of 2.00% through 4.00%. Principal payments are due annually by November 20 and interest payments are due semi-annually in May and November of each year. The principal outstanding as of June 30, 2015, was \$155,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest	Total Payment	Less: AOC Payments *	Net Due From County
2016	\$ 50,000	\$ 5,700	\$ 55,700	\$ (23,696)	\$ 32,004
2017	50,000	3,700	53,700	(23,696)	30,004
2018	55,000	1,350	56,350	(11,848)	44,502
Totals	<u>\$ 155,000</u>	<u>\$ 10,750</u>	<u>\$ 165,750</u>	<u>\$ (59,240)</u>	<u>\$ 106,510</u>

\* In accordance with a sublease agreement between the Administrative Office of the Courts (AOC) and the Madison County Fiscal Court dated March 1, 1998, AOC committed itself to participate in providing part of the cost of replacing the HVAC system in the courthouse and related improvements through use allowance payments.

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 5. Long-Term Debt (Continued)**

**D. Financing Obligations – Family Court Facilities Project**

On July 20, 2000, the Madison County Fiscal Court entered into a 17-year lease agreement with KADD Financing Trust for the construction of the family court facilities project. On November 15, 2011, the County refinanced the outstanding \$560,000 principal balance of the original lease. The refinancing amount issued was \$584,891, a principal increase of \$24,891. Principal payments are due annually on June 1, and interest payments are due semi-annually on June 1 and December 1. The lease will be fully amortized on June 1, 2017. The principal outstanding as of June 30, 2015 was \$224,222. Future principal and interest requirements are:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 108,787	\$ 5,673
2017	115,435	2,920
Totals	<u>\$ 224,222</u>	<u>\$ 8,593</u>

**E. Financing Obligations – Sheriff's Vehicles**

On October 31, 2013, the Madison County Fiscal Court entered into a 4-year lease agreement with KACO Leasing Trust for the purchase of four vehicles for the sheriff's department and paid off an outstanding lease dated March 18, 2011. The outstanding balance on March 18, 2011 was \$63,900. The agreement was for \$152,400 and required monthly principal and interest payments commencing on October 1, 2013, with the final payment on November 20, 2017. The principal outstanding as of June 30, 2015 was \$92,075. Future principal and interest requirements are:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 38,100	\$ 3,453
2017	38,100	1,686
2018	15,875	184
Totals	<u>\$ 92,075</u>	<u>\$ 5,323</u>

**F. Financing Obligations – 911 Equipment**

On July 27, 2012, the Madison County Fiscal Court entered into a 5-year lease agreement with KACO Leasing Trust for the acquisition, installation and equipping of 911 equipment. The agreement was for \$575,000 and required monthly principal and interest payments commencing on September 20, 2012, with final payment on August 20, 2016. The principal outstanding as of June 30, 2015 was \$174,004. Future principal and interest requirements are:



**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 5. Long-Term Debt (Continued)**

**F. Financing Obligations – 911 Equipment (Continued)**

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 148,837	\$ 3,034
2017	25,167	90
Totals	<u>\$ 174,004</u>	<u>\$ 3,124</u>

**G. Financing Obligations – Mowers**

On December 5, 2013, the Madison County Fiscal Court entered into a 6 year lease agreement with Wells Fargo Financial Leasing, Inc., for mowers for the Battlefield Golf Course. The agreement calls for lease payments of \$9,139 due in May through October of each year. The outstanding lease balance as of June 30, 2015 was \$219,336.

Fiscal Year Ended June 30	Amount
2016	\$ 54,834
2017	54,834
2018	54,834
2019	54,834
Totals	<u>\$ 219,336</u>

**H. Changes In Long-Term Liabilities**

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 9,555,000	\$	\$ 415,000	\$ 9,140,000	\$ 425,000
Financing Obligations (Restated)	1,259,397		394,760	864,637	400,558
Total Long-term Debt	<u>\$ 10,814,397</u>	<u>\$ 0</u>	<u>\$ 809,760</u>	<u>\$10,004,637</u>	<u>\$ 825,558</u>

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 6. Employee Retirement System**

**A. Plan Description**

The Fiscal Court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.67 percent.

Hazardous covered employees are required to contribute eight percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute nine percent of their salary to be allocated as follows: eight percent will go to the member's account and one percent will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 34.31 percent.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute five percent (nonhazardous) and eight percent (hazardous) of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent (nonhazardous) and seven and one-half percent (hazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution

The county's contribution for FY 2013 was \$1,285,923, FY 2014 was \$1,244,175, and FY 2015 was \$1,183,418.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post-retirement health care coverage as follows:

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 6. Employee Retirement System (Continued)**

**A. Plan Description (Continued)**

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn 15 dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

KRS issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**B. Net Pension Liability**

As promulgated by GASB Statement No. 68 the total pension liability for CERS was determined by an actuarial valuation as of June 30, 2014. The total net pension liability for all employers participating in CERS was determined by an actuarial valuation as of June 30, 2014, measured as of the same date and is as follows: non-hazardous \$3,244,377,000 and hazardous \$1,201,825,000, for a total net pension liability of \$4,446,202,000 as of June 30, 2014. Based on these requirements, Madison County's proportionate share of the net pension liability as of June 30, 2015 is:

	<u>June 30, 2014</u>	<u>June 30, 2015</u>
Hazardous	\$ 1,776,000	\$ 1,591,000
Non-Hazardous	<u>8,316,000</u>	<u>7,349,000</u>
Totals	<u>\$ 10,092,000</u>	<u>\$ 8,940,000</u>

The complete actuarial valuation report including all actuarial assumptions and methods is publically available on the website at [www.kyret.ky.gov](http://www.kyret.ky.gov) or can be obtained as described in the paragraph above.

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 7. Deferred Compensation**

On February 20, 1990, the Madison County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary. Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**Note 8. Health Reimbursement Account**

The Madison County Fiscal Court established a flexible spending account on May 1, 2012 to provide employees an additional health benefit. The County has contracted with Connect Your Care, a third-party administrator, to administer the plan. The plan provides for each eligible employee, \$4,000 each year to pay for qualified medical expenses after the initial \$1,000 deductible is met.

**Note 9. Insurance**

For the fiscal year ended June 30, 2015, Madison County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 10. Related Party Transactions**

During the fiscal year ended June 30, 2015, Madison County paid \$1,005 to a towing company owned by the brother of a magistrate. In addition, \$346,559 was paid to a business for jail food and food prep expenditures. The president of the business is the spouse of the former Deputy Judge/Executive. Of the \$346,559, payments of \$187,300 were made during the timeframe the former Deputy Judge/Executive was employed with the County.

**MADISON COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2015**  
**(Continued)**

**Note 11. Prior Period Adjustments**

The beginning cash balances of the General Fund and the CSEPP Fund were restated as follows:

General Fund:	
Ending Cash Balance Prior Year	\$ 5,154,652
Prior Year Voided Checks	<u>367</u>

Ending Cash Balance Prior Year (adjusted)	<u><u>\$ 5,155,019</u></u>
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CSEPP Fund:	
Ending Cash Balance Prior Year	\$ 1,505,040
Prior Year Voided Checks	<u>301</u>

Ending Cash Balance Prior Year (adjusted)	<u><u>\$ 1,505,341</u></u>
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The beginning balance of Financing Obligations was restated to include a mower lease omitted in prior years:

Ending Financing Obligations Prior Year	\$ 985,227
Mower Lease	<u>274,170</u>

Ending Financing Obligation Prior Year (adjusted)	<u><u>\$ 1,259,397</u></u>
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**Note 12. Madison County Detention Center Bond and Work Release Accounts**

The Madison County Detention Center maintains a bond account and a work release account for the collection of fees. At June 30, 2015, the bond account had a balance of \$527 and the work release account had a balance of \$12,929.

**Note 13. Conduit Debt**

From time to time the county has issued bonds to provide financial assistance to industries in Madison County for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest, in accordance with KRS 103.210. This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments. Although conduit debt obligations bear the Madison County Fiscal Court's name as issuer, the Fiscal Court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. Neither the Fiscal Court nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statement. Conduit debt has been issued but the amount currently outstanding is not reasonably determinable as of June 30, 2015.

**Note 14. Commitments and Contingencies**

The County is involved in several lawsuits that arose from the normal course of doing business. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

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**MADISON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2015**





**MADISON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2015**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>RECEIPTS</b>				
Taxes	\$ 7,575,100	\$ 7,575,100	\$ 8,632,626	\$ 1,057,526
Excess Fees	891,000	891,000	1,270,927	379,927
Licenses and Permits	266,500	266,500	235,566	(30,934)
Intergovernmental	1,777,700	1,777,700	1,291,319	(486,381)
Charges for Services	650,000	650,000	407,626	(242,374)
Miscellaneous	611,000	611,000	823,986	212,986
Interest	125,000	125,000	92,276	(32,724)
Total Receipts	11,896,300	11,896,300	12,754,326	858,026
<b>DISBURSEMENTS</b>				
General Government	3,501,104	3,702,519	3,559,078	143,441
Protection to Persons and Property	1,711,497	1,742,962	1,445,307	297,655
General Health and Sanitation	638,385	654,732	591,382	63,350
Social Services	432,767	449,734	359,300	90,434
Recreation and Culture	739,469	760,959	714,699	46,260
Other Transportation Facilities and Services	25,000	25,000	20,000	5,000
Debt Service	775,221	809,225	809,222	3
Capital Projects	1,542,000	1,706,343	403,585	1,302,758
Administration	5,830,857	4,954,351	2,195,892	2,758,459
Total Disbursements	15,196,300	14,805,825	10,098,465	4,707,360
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(3,300,000)	(2,909,525)	2,655,861	5,565,386
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds				
Transfers To Other Funds	(1,200,000)	(1,200,000)	(1,700,000)	(500,000)
Total Other Adjustments to Cash (Uses)	(1,200,000)	(1,200,000)	(1,700,000)	(500,000)
Net Change in Fund Balance	(4,500,000)	(4,109,525)	955,861	5,065,386
Fund Balance Beginning (Restated)	4,500,000	4,500,000	5,155,019	655,019
Fund Balance - Ending	\$ 0	\$ 390,475	\$ 6,110,880	\$ 5,720,405

**MADISON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**  
**(Continued)**

<b>ROAD FUND</b>				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Intergovernmental	\$ 2,663,981	\$ 2,871,474	\$ 2,911,663	\$ 40,189
Charges for Services	719,000	719,000	753,573	34,573
Miscellaneous	26,000	229,317	212,336	(16,981)
Interest	500	500	287	(213)
Total Receipts	3,409,481	3,820,291	3,877,859	57,568
<b>DISBURSEMENTS</b>				
Roads	3,091,123	3,870,910	3,717,825	153,085
Administration	518,358	513,494	412,555	100,939
Total Disbursements	3,609,481	4,384,404	4,130,380	254,024
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(200,000)	(564,113)	(252,521)	311,592
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds			300,000	300,000
Total Other Adjustments to Cash (Uses)			300,000	300,000
Net Change in Fund Balance	(200,000)	(564,113)	47,479	611,592
Fund Balance Beginning	200,000	264,113	264,114	1
Fund Balance - Ending	\$ 0	\$ (300,000)	\$ 311,593	\$ 611,593

**MADISON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**  
**(Continued)**

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive Negative
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 920,500	\$ 921,969	\$ 871,073	\$ (50,896)
Charges for Services	96,500	96,500	98,671	2,171
Miscellaneous	225,000	235,769	281,176	45,407
Interest	100	100	46	(54)
Total Receipts	1,242,100	1,254,338	1,250,966	(3,372)
DISBURSEMENTS				
Protection to Persons and Property	2,098,427	2,544,245	2,543,937	308
Administration	443,673	400,568	398,132	2,436
Total Disbursements	2,542,100	2,944,813	2,942,069	2,744
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
	(1,300,000)	(1,690,475)	(1,691,103)	(628)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	1,200,000	1,200,000	1,700,000	500,000
Total Other Adjustments to Cash (Uses)	1,200,000	1,200,000	1,700,000	500,000
Net Change in Fund Balance	(100,000)	(490,475)	8,897	499,372
Fund Balance Beginning	100,000	100,000	70,649	(29,351)
Fund Balance - Ending	\$ 0	\$ (390,475)	\$ 79,546	\$ 470,021

**MADISON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**  
**(Continued)**

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 200,000	\$ 200,000	\$ 178,507	\$ (21,493)
Interest	3,000	3,000	1,584	(1,416)
Total Receipts	203,000	203,000	180,091	(22,909)
<b>DISBURSEMENTS</b>				
Roads	883,843	583,843		583,843
Total Disbursements	883,843	583,843		583,843
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(680,843)	(380,843)	180,091	560,934
<b>Other Adjustments to Cash (Uses)</b>				
Transfers To Other Funds			(300,000)	(300,000)
Total Other Adjustments to Cash (Uses)			(300,000)	(300,000)
Net Change in Fund Balance	(680,843)	(380,843)	(119,909)	260,934
Fund Balance Beginning	680,543	680,543	658,395	(22,148)
Fund Balance - Ending	\$ (300)	\$ 299,700	\$ 538,486	\$ 238,786

**MADISON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**  
**(Continued)**

**CHEMICAL STOCKPILE EMERGENCY PREPAREDNESS PROGRAM**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 17,642,579	\$ 17,642,579	\$ 7,345,240	\$ (10,297,339)
Charges for Services	40,000	40,000	275	(39,725)
Miscellaneous	19,400	19,400	19,740	340
Interest			1	1
Total Receipts	<u>17,701,979</u>	<u>17,701,979</u>	<u>7,365,256</u>	<u>(10,336,723)</u>
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	17,774,175	17,774,175	8,565,313	9,208,862
Administration	333,804	333,804	173,047	160,757
Total Disbursements	<u>18,107,979</u>	<u>18,107,979</u>	<u>8,738,360</u>	<u>9,369,619</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(406,000)</u>	<u>(406,000)</u>	<u>(1,373,104)</u>	<u>(967,104)</u>
Net Change in Fund Balance	(406,000)	(406,000)	(1,373,104)	(967,104)
Fund Balance Beginning (Restated)	<u>400,000</u>	<u>400,000</u>	<u>1,505,341</u>	<u>1,105,341</u>
Fund Balance - Ending	<u>\$ (6,000)</u>	<u>\$ (6,000)</u>	<u>\$ 132,237</u>	<u>\$ 138,237</u>

**MADISON COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**  
**(Continued)**

<b>E-911 FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Taxes	\$ 902,000	\$ 902,000	\$ 805,321	\$ (96,679)
Intergovernmental	240,000	240,000	246,215	6,215
Charges for Services	315,000	315,000	295,916	(19,084)
Miscellaneous	153,000	153,000	190,743	37,743
Interest	500	500		(500)
Total Receipts	1,610,500	1,610,500	1,538,195	(72,305)
<b>DISBURSEMENTS</b>				
General Government				
Protection to Persons and Property	1,155,408	1,176,589	1,003,482	173,107
Debt Service	152,458	152,458	152,458	
Capital Projects	500	500		500
Administration	402,134	380,953	294,286	86,667
Total Disbursements	1,710,500	1,710,500	1,450,226	260,274
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(100,000)	(100,000)	87,969	187,969
Net Change in Fund Balance	(100,000)	(100,000)	87,969	187,969
Fund Balance Beginning	100,000	100,000	154,272	54,272
Fund Balance - Ending	\$ 0	\$ 0	\$ 242,241	\$ 242,241

**MADISON COUNTY**  
**NOTES TO REGULATORY SUPPLEMENTARY**  
**INFORMATION - BUDGETARY COMPARISON SCHEDULES**

**June 30, 2015**

**Note 1. Budgetary Information**

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the Fiscal Court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the Fiscal Court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

**Note 2. Original Budget**

Per KRS 68.240(1), "The county judge/executive shall annually prepare a proposed budget for the expenditure of all funds, including those from state and federal sources, which are to be expended by the Fiscal Court in the next fiscal year." The Madison County Fiscal Court did not pass a balanced budget in the LGFA Fund and CSEPP Fund by \$300 and \$6,000, respectively.

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**MADISON COUNTY**  
**SUPPLEMENTARY SCHEDULE**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2015**



**MADISON COUNTY**  
**SCHEDULE OF CAPITAL ASSETS**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2015**

The Fiscal Court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 6,480,126	\$	\$	\$ 6,480,126
Construction In Progress (Restated)	64,314	56,947		121,261
Buildings	19,524,041	135,908		19,659,949
Vehicles	4,263,937	275,100	142,166	4,396,871
Equipment (Restated)	8,205,128	343,011		8,548,139
Infrastructure	20,288,611	1,237,833		21,526,444
 Total Capital Assets	 <u>\$ 58,826,157</u>	 <u>\$ 2,048,799</u>	 <u>\$ 142,166</u>	 <u>\$60,732,790</u>

**MADISON COUNTY**  
**NOTES TO REGULATORY SUPPLEMENTARY**  
**INFORMATION - SCHEDULE OF CAPITAL ASSETS**

**June 30, 2015**

**Note 1. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 10,000	10-60
Buildings and Building Improvements	\$ 10,000	10-75
Equipment	\$ 10,000	3-25
Vehicles	\$ 10,000	3-5
Infrastructure	\$ 10,000	10-50

**Note 2. Prior Period Adjustment**

Ending Capital Asset Balance - Prior Year	\$58,469,395
Add: Construction In Progress Omitted In Prior Year	64,314
Add: Mowing Equipment Omitted In In Prior Year	292,448
Ending Capital Asset Balance - Prior Year	<u><u>\$58,826,157</u></u>

**MADISON COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**



**MADISON COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Fiscal Year Ended June 30, 2015**

Federal Grantor Program Title Grant Name (CFDA #)	Pass-Through Grantor's Number	Expenditures
<b><u>U.S. Department of Homeland Security</u></b>		
<b>Passed Through Kentucky Department of Military Affairs:</b>		
Chemical Stockpile Emergency Preparedness Program (CFDA 97.040)	P0N2 095 1300003652	\$ 8,738,360 *
Emergency Management Performance Grant (CFDA 97.042)	P0N2 095 1500000654	39,574
Hazard Mitigation Grant (CFDA 97.039)	1925-004	11,075
Homeland Security Grant Program (CFDA 97.067)	P02 094 1400002836	<u>25,000</u>
<b>Total U.S. Department of Homeland Security</b>		8,814,009
<b><u>U.S. Department of Justice</u></b>		
<b>Direct Program:</b>		
Edward Byrne Memorial Justice Assistance Grant Program (CFDA 16.738)	2014-DJ-BX-0142	<u>16,769</u>
<b>Total Expenditures of Federal Awards</b>		<u><u>\$ 8,830,778</u></u>

\* Tested as Major Program

**MADISON COUNTY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2015**

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Madison County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Note 2 - Determination of Major Program

The Type A program for the Fiscal Court is any program for which total expenditures of federal awards exceed \$300,000 for fiscal year 2015 or were deemed high risk. The major program tested was:

- Chemical Stockpile Emergency Preparedness Program

Note 3 - Noncash Expenditures

There were no noncash expenditures of federal awards for fiscal year 2015.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Reagan Taylor, Madison County Judge/Executive  
Members of the Madison County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

**Independent Auditor's Report**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Madison County Fiscal Court for the fiscal year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Madison County Fiscal Court's financial statement and have issued our report thereon dated February 02, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the Madison County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Madison County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Madison County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2015-001, 2015-002, and 2015-004 to be material weaknesses.



Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

**Internal Control Over Financial Reporting (Continued)**

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2015-006, 2015-007, 2015-008, and 2015-009 to be significant deficiencies.

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Madison County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2015-001, 2015-002, 2015-003, 2015-004, 2015-005, 2015-006, 2015-008, and 2015-009.

**County Judge/Executive's Responses to Findings**

The Madison County Judge/Executive's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The County Judge/Executive's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal flourish extending to the right.

Mike Harmon  
Auditor of Public Accounts

February 02, 2016

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM  
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133**





**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Reagan Taylor, Madison County Judge/Executive  
Members of the Madison County Fiscal Court

Report On Compliance For Each Major Federal Program  
And Report On Internal Control Over Compliance  
In Accordance With OMB Circular A-133

Independent Auditor's Report

**Report on Compliance for Each Major Federal Program**

We have audited Madison County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Madison County's major federal programs for the year ended June 30, 2015. Madison County's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the entity's management.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Madison County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our compliance audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and Circular A-133 require that we plan and perform the compliance audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. A compliance audit includes examining, on a test basis, evidence about Madison County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our compliance audit provides a reasonable basis for our opinion. Our compliance audit does not provide a legal determination on Madison County's compliance with those requirements.

**Basis for Qualified Opinion on Chemical Stockpile Emergency Preparedness Program**

As described in the accompanying schedule of findings and questioned costs, Madison County did not comply with requirements regarding CFDA 97.040 Chemical Stockpile Emergency Preparedness Program as described in finding number 2015-010 for Activities Allowed or Unallowed and Allowable Costs/Cost Principles.



Report On Compliance For Each Major Federal Program  
And Report On Internal Control Over Compliance  
In Accordance With OMB Circular A-133  
(Continued)

**Basis for Qualified Opinion on Chemical Stockpile Emergency Preparedness Program (Continued)**

Compliance with such requirements is necessary, in our opinion, for Madison County to comply with the requirements applicable to that program.

**Qualified Opinion on Chemical Stockpile Emergency Preparedness Program**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Madison County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Chemical Stockpile Emergency Preparedness Program for the year ended June 30, 2015.

**Other Matters**

The results of our auditing procedures disclosed other instances of noncompliance with the compliance requirements referred to above that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2015-011. Our opinion on each major federal program is not modified with respect to these matters.

Madison County's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Madison County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

**Report on Internal Control over Compliance**

Management of Madison County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Madison County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Madison County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.



Report On Compliance For Each Major Federal Program  
And Report On Internal Control Over Compliance  
In Accordance With OMB Circular A-133  
(Continued)

**Report on Internal Control over Compliance (Continued)**

We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-010 to be a material weakness.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-011 to be a significant deficiency.

Madison County's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. Madison County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,

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Mike Harmon  
Auditor of Public Accounts

February 02, 2016

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**MADISON COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For The Year Ended June 30, 2015**



**MADISON COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Fiscal Year Ended June 30, 2015**

**Section I: Summary of Auditor's Results**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified not considered to be material weaknesses?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> None Reported
Is any noncompliance material to financial statements noted?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

***Federal Awards***

Type of auditor's report issued on compliance for major programs: Qualified

Internal control over major programs:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified not considered to be material weaknesses?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> None Reported
Are any audit findings disclosed that are required to be reported in accordance with <u>U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, Section .510(a)</u> ?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Identification of major programs:

CFDA Numbers and Name of Federal Program or Cluster

CFDA #97.040 – Chemical Stockpile Emergency Preparedness Program
--

Enter the dollar threshold used to distinguish between Type A and Type B programs:	\$300,000	
Is the auditee qualified as a low-risk auditee?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**MADISON COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2015**  
**(Continued)**

**Section II: Findings - Financial Statement Audit**

**2015-001 Madison County Fiscal Court's Internal Control Procedures Over Expenditures Failed Resulting In Questioned Costs**

---

During the period spanning 2006 through May 2015, law enforcement identified potential misappropriated assets totaling \$368,725 in the Chemical Stockpile Emergency Preparedness Program (CSEPP). Auditors performed procedures to verify amounts incurred during fiscal year 2015 and expanded testing in the area of expenditures to determine if further amounts should be questioned. The auditor's expanded testing did not result in additional questioned costs beyond what law enforcement identified.

Auditors question costs associated with 60 transactions in the amount of \$34,489 in federal funds for fiscal year 2015, including:

- Purchase of 59 iPads.
- Reimbursement of three out-of-state travel expenses when the employee was clocked in on county property.
- Repairs to a vehicle that was not owned by the county on three occasions.

CSEPP expenditure transactions did not receive the same scrutiny when processed for payment as the other departments within the county due to the nature of the program. Adequate supervisory review was not performed to ensure all payments made were for valid purchases. In addition, the county did not properly utilize the purchase order system (See Finding 2015-006). Thus, management's documented controls failed to work properly over CSEPP transactions.

The failure to have effective internal controls resulted in the county expending funds for purposes that were not associated with the federal program. Failure to expend federal funds for allowable purposes could result in the county having to reimburse the federal government for questioned costs. Management has a responsibility to design and implement internal controls to provide reasonable assurance of safeguarding resources against waste, fraud and abuse. Good internal controls provide reasonable assurance that the recording, processing and reporting of data is properly performed and that if errors or fraud occur, detective controls will bring these to management's attention. Management should be sufficiently involved with the day to day operations, by providing strong oversight and review, to mitigate the risks inherent in certain accounting areas. In addition to good internal controls, 2 CFR 200.403 requires that costs be necessary and reasonable in order to be allowable under federal awards. The costs must also be consistent with county policies and procedures.

We recommend the fiscal court strengthen established controls to ensure all expenditures are properly reviewed and approved to ensure federal expenditures are valid and allowable under 2 CFR 200.403. All county departments should be treated with equal scrutiny. During review of documentation, purchases should be questioned as to the necessity and reasonability for the performance of the program.

*County Judge/Executive Reagan Taylor's Response: The following finding is a result of the theft from our CSEPP program. We are currently in the process of litigating this situation. The new administration was already in the process of modifying the disbursement process prior to the identification of the theft and since that time has implemented new request and disbursement processes.*

**2015-002 Madison County Fiscal Court Did Not Have Controls In Place To Ensure The Schedule Of Expenditures Of Federal Awards Accurately Reported Federal Program Expenditures**

---

The Schedule of Expenditures of Federal Awards (SEFA) prepared by the Fiscal Court did not accurately represent amounts expended for federal programs. It appears that the amount reported on the SEFA was the

**MADISON COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2015**  
**(Continued)**

**Section II: Findings - Financial Statement Audit (Continued)**

**2015-002 Madison County Fiscal Court Did Not Have Controls In Place To Ensure The Schedule Of Expenditures Of Federal Awards Accurately Reported Federal Program Expenditures (Continued)**

---

amount received from the federal program instead of what was expended, resulting in a misstatement of \$1,393,120. Management was made aware of this error during the audit and appropriately revised the SEFA.

2 CFR 200.510(b) requires a schedule of expenditures of federal awards be prepared to include total federal awards expended for the period covered by financial statements. Good internal controls would dictate that records be maintained to document expenditures of federal awards and those expended federal award amounts be reported on the SEFA.

It is recommended that the Fiscal Court improve controls over financial statement reporting to ensure that the SEFA is reported accurately.

*County Judge/Executive Reagan Taylor's Response: This finding has never been noted on previous audits. Upon receipt of the Audit Exit Conference, the Finance Department has modified its process to ensure the Federal Awards are properly reflected. It is important to note that while misstated, all funds have been accounted for within the CSEPP program.*

**2015-003 Madison County Fiscal Court Did Not Comply With Bidding Requirements**

---

The Madison County Fiscal Court had the following exceptions with bidding requirements:

- Four purchases exceeding \$20,000 were not bid:
  - The Madison County Fiscal Court purchased an excavator for \$82,500. The expenditure was broken into two transactions of \$32,500 and \$50,000, paid to two separate vendors but with the same address. The only supporting documentation for the purchase was a handwritten note on the former County Judge/Executive's letterhead with the name, address and payment amount for each vendor.
  - The county purchased two yellow 2001 Chevrolet 7500 pick-up trucks, totaling \$24,000. The purchases were made on the same day and to the same vendor but on separate checks.
  - The county entered into a lease agreement for mowers for the golf course. The term of the lease agreement is May to October, from 2014 through 2019, with a total lease value of \$292,435.
  - The county entered into a lease agreement for golf carts for the golf course. The term of the lease agreement is 63 months, with a total lease value of \$198,400.
- Bid documentation was not properly maintained for nine bids:
  - No documentation available for review for two bids.
  - No documentation available for review for purchase made on state price contract.
  - No documentation maintained regarding the advertisement of six bids.

The Madison County Fiscal Court appeared to be aware of the bidding requirements per KRS 424.260; however, they did not bid due to various reasons. The purchase of the excavator was deemed to be a good deal and would save the county money. The Chevrolet pick-up trucks were not bid because it was a purchase of two separate vehicles. Finally, lease agreements were not viewed as requiring bidding. The lack of properly maintained bid documentation was due to a lack of policies and procedures over the handling of bid documentation.

**MADISON COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2015**  
**(Continued)**

**Section II: Findings - Financial Statement Audit (Continued)**

**2015-003 Madison County Fiscal Court Did Not Comply With Bidding Requirements (Continued)**

---

Competitive bidding ensures that the county procures materials and services at the best price available. By limiting competition, the county may not get this benefit. In addition, the lack of proper documentation would make it difficult to prove adherence to the provision of KRS 424.260 and the county's administrative policy. Documentation should be complete and consistent to ensure adequate records management in terms of providing evidence to demonstrate adherence to applicable laws and regulations. KRS 424.260(1) states "Except where a statute specifically fixes a larger sum as the minimum for a requirement of advertisement for bids, no city, county, or district, or board or commission of a city or county, or sheriff or county clerk, may make a contract, lease, or other agreement for materials, supplies except for perishable meat, fish, and vegetables, equipment, or for contractual services other than professional, involving an expenditure of more than twenty thousand dollars (\$20,000) without first making newspaper advertisement for bids." In addition, the DLG manual states, "All contracts, invoices, purchase orders & authorizations, vendor bidding documentation, receipts, deeds, etc. must be maintained/filed with the asset documentation records."

We recommend that the Madison County Fiscal Court follow the requirements of KRS 424.260 and the county's administrative policy. Purchases of \$20,000 or more should be competitively bid unless the requirements for negotiated procurement have been met. Every purchase should have adequate supporting documentation, including purchases made under the state price contract. A copy of the applicable state price contract should be kept on file and all bidding documentation should be maintained.

*County Judge/Executive Reagan Taylor's Response: The following findings were approved during the previous administration with the exception of the lease of the Golf Course Carts. While we recognize the finding in this audit will change how we handle leases in the future, we relied on past practices and renewed a lease that had not been identified as an issue in past audits. We will no longer lease without going through the bidding process.*

**2015-004 Madison County Fiscal Court Had Negative Bank Balances During The Fiscal Year**

---

The Fiscal Court had negative bank balances in the jail fund and the payroll revolving account during fiscal year 2015. The jail fund account was overdrawn eight times, and the payroll revolving account was overdrawn a total of seven times. The negative bank balances in the payroll account are attributed to the delay in deposits to the revolving account on the day that payroll is processed. The negative bank balance in the jail fund appears to be the result of not monitoring fund balances when claims were paid to determine that a transfer was needed to cover the claims.

Negative bank balances are indicative of cash flow problems and are a poor business practice. Aside from being good business practice, maintaining positive bank balances is required by statutes. KRS 68.210 requires the State Local Finance officer to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual* states that the County Treasurer is only to sign checks if there is sufficient fund balance and adequate cash in the bank to cover the check.

We recommend that the Fiscal Court maintain positive balances in all bank accounts by monitoring fund balances and ensuring that deposits to the revolving account are made immediately.



**MADISON COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2015**  
**(Continued)**

**Section II: Findings - Financial Statement Audit (Continued)**

**2015-004 Madison County Fiscal Court Had Negative Bank Balances During The Fiscal Year (Continued)**

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*County Judge/Executive Reagan Taylor's Response: The negative balances are based on the transfer of funds from the General Fund to the Jail Fund and the payroll fund. The Fiscal Court is in a no-win situation with the payroll fund because of the time constraint from the time payroll is processed to which the payroll is deducted from the account. The payroll is deducted the next morning from the account, but the deposits from each fund covering the payroll are in check form and must be signed by two parties and then deposited, causing a negative balance for a short period of time. The Fiscal Court has never been charged a fee because the bank understands the process, however we are looking at alternative pay dates to extend the payroll process turnaround time.*

**2015-005 Madison County Jail Did Not Present An Accurate Financial Statement**

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The financial statement presented to the treasurer for fiscal year 2015 was not an accurate representation of the commissary account. The document presented as a financial statement was a recapitulation of activity posted to the bank account. Financial information was maintained by the jail using software that does not produce a financial statement, but does produce the information that can be compiled into a financial statement. Since the jail software does not produce a financial statement, jail employees tried to compile information based upon banking records. This resulted in the presentation of an inaccurate financial summary to the treasurer at fiscal year-end.

KRS 68.210 requires the State Local Finance Officer to create a system of uniform accounts for all counties and county officials. The *County Budget Preparation and State Local Finance Officer Policy Manual*, under Jail Commissary Fund instructions provides minimum accounting and reporting standards. It requires a jail commissary year-to-date summary compiled with information obtained from receipts and disbursements journals. The ending balance reported on the summary is reconciled to the bank balance. This summary is sufficient to use as the year-end report that is submitted to the County Treasurer.

It is recommended that an accurate financial statement be compiled using financial information from receipts and disbursement journals. The ending balance should be reconciled to the bank balance. It is further recommended that this report be submitted to the County Treasurer as the year-end report instead of the bank activity recapitulation.

*County Jailer's Response: Since the conclusion of the audit, the facility has attained a new company for our commissary sales. Subsequently, that company has launched new accounting software. We are confident in our new system and feel like we will no longer have issues retrieving necessary reports and financial statements.*

**2015-006 Madison County Fiscal Court Did Not Properly Handle Disbursement Transactions**

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Testing was conducted of 109 expenditure transactions. Of those transactions, the following exceptions were noted:

- 15 transactions had no supporting documentation that would support the allowability of the disbursement. Of those 15, the support for 13 transactions was not the original PO and/or invoice. The support for the remaining two transactions was a copy of a hand-written note on the former County Judge/Executive's letterhead (See also Finding 2015-03).

**MADISON COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2015**  
**(Continued)**

**Section II: Findings - Financial Statement Audit (Continued)**

**2015-006 Madison County Fiscal Court Did Not Properly Handle Disbursement Transactions (Continued)**

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- Three expenditures that did not appear to be valid obligations of the Fiscal Court. Payments included sales tax, penalties due to late payments, and reimbursement that included charges for excess baggage fees and charges for an infant car seat included in with car rental fees.
- 35 invoices were not paid within 30 days.
- Four purchase orders lacked the signature of the department head.

The county did not properly utilize the purchase order system. The majority of purchases were made prior to the purchase order being obtained, and no log was maintained of the outstanding purchase orders. In addition, the county did not have adequate policies and procedures in place to require original invoices be submitted for payment. Documented controls failed to work properly. The tested invoices did not have date stamps to signify when the invoice was received by the department or by the Finance department. Lack of proper accounting practices and internal controls increase the risk that misstatements of financial activity or fraud will occur and go undetected. Without proper procedures in place or the proper execution of documented controls to mitigate this risk, the county is exposing public resources to potential misstatements and fraud.

Good internal controls dictate that adequate original supporting documentation should be maintained for all expenditures and approval be obtained before payment. All original invoices should be maintained, cancelled upon payment, and paid within 30 days. KRS 65.140 states, unless the purchaser and vendor otherwise contract, all bills for goods and services shall be paid within 30 working days of receipt of a vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper performances or improper invoicing by the vendor or by the vendor's subcontractor.

Without invoices with adequate information, there is not proper justification for the disbursement. We recommend that the county properly utilize the purchase order system, requiring purchase orders prior to purchase. All purchase orders should have the approval of the department head and/or County Judge/Executive or their designee. Adequate, original documentation should be provided and reviewed to ensure all expenditures are valid obligations of the county. We further recommend that the County ensure that all invoices are paid within 30 days as required by KRS 65.140. All County department heads should be instructed to date stamp invoices when received to help ensure that payment is made timely.

*County Judge/Executive Reagan Taylor's Response: The following finding is a result of the theft from our CSEPP program. We are currently in the process of litigating this situation. The new administration was already in the process of modifying the disbursement process prior to the identification of the theft and since that time has implemented new request and disbursement processes.*

**2015-007 The Madison County Battlefield Golf Course Manager Is Receiving Golf Lesson Fees And Conducting Outside Employment During County Work Hours**

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The Battlefield Golf Course manager is receiving payment directly to provide golf lessons. Per the county's website, all payments are to be made directly to the golf course manager. The county does not have a job description or contract with the employee which documents an arrangement where the fees would go directly to the manager. Further, there is no account of the total fees paid to the golf course manager. In addition, the golf course manager teaches a course for a local university. The classes are held at the county's golf course during the week during normal business hours. The manager does not clock out to conduct these classes. Thus, the golf course manager is conducting outside employment responsibilities during county work hours.

**MADISON COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2015**  
**(Continued)**

**Section II: Findings - Financial Statement Audit (Continued)**

**2015-007 The Madison County Battlefield Golf Course Manager Is Receiving Golf Lesson Fees And Conducting Outside Employment During County Work Hours (Continued)**

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The county is treating the arrangement with the golf course manager in a similar fashion to what is industry standard for private golf courses when providing golf lessons. Additionally, the county did not have written policies regarding acceptable practices for outside employment. By not having an approved agreement with the golf pro to receive direct payment for golf fees, it gives the appearance that the employee is receiving additional payment for duties that would be considered a part of his normal job duties. Furthermore, the lack of policies on outside employment led to the county employee engaging in activities related to outside employment during county work hours. In addition, by performing job duties related to outside employment, the employee is getting paid by the county for hours not attributed to county work duties.

While these arrangements may be industry standard, the rules applicable to county governments are different. Employees should not receive additional compensation to perform duties considered a part of their normal job duties. If a different arrangement is agreed upon, a written job description and/or contract should be on file for the employee. The county's *Personnel and Administrative Code* states, "All positions shall be identified with a written job description that outlines the duties and responsibilities of their positions. These descriptions will be updated periodically by the County Judge/Executive or their designee with the approval of Fiscal Court." Furthermore, employees should be effectively clocked out, with the proper use of leave time, or off duty when performing job duties related to outside employment.

Employees should not be paid by the county for hours used performing job responsibilities for outside employment. Section 7 of the county's administrative policy states, "All employees shall work according to a schedule of hours recommended by the Supervisor, County Judge/Executive and Fiscal Court. No employee will leave work at any time during regular working hours without supervisor's approval. No employee will leave work before he/she has personally clocked out or signed out. No employee will leave their working area for personal reasons without supervisor's approval." Ethical standards would dictate that employees not use official time to perform activities other than those required in the performance of their official duties.

We recommend the Madison County Fiscal Court review the arrangement with the golf course manager. If it is the intention of the County to allow the golf course manager to retain fees directly for the golf lessons, a job description should be prepared and/or a contract entered into with the employee and approved by Fiscal Court. Otherwise, the golf lesson fees should be turned over to the Treasurer and deposited into the appropriate fund. We further recommend that the Fiscal Court update the County's administrative policy and/or ethics policy to include acceptable practices in regards to outside employment. The County should refer this matter to their ethics board for review and determine whether this is not a violation of ethical standards.

*County Judge/Executive Reagan Taylor's Response: The Madison County Fiscal Court will enter into a contract with our Golf Pro for outside lessons and will run said lessons through the Point of Sale program. The Human Resources Department has implemented clocking in and out for salaried employees to ensure it is reflected that the employee is not on county time when working a second job during their personal time. While these findings will be corrected, the action of the Golf Pro was in line with how golf courses are managed in the private sector and all actions taken were with the approval of the Fiscal Court.*

**2015-008 Madison County Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll**

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Madison County Fiscal Court has a lack of adequate segregation of duties over the following payroll accounting functions: processing, record-keeping, report preparation, disbursements, and reconciliations. The County Treasurer processes payroll, which includes calculating hours worked, checks and confirms leave

**MADISON COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2015**  
**(Continued)**

**Section II: Findings - Financial Statement Audit (Continued)**

2015-008 Madison County Fiscal Court Lacks Adequate Segregation Of Duties Over Payroll (Continued)

balances, prepares payroll reports, and reconciles the payroll fund bank account. In addition, payroll is not subject to final approval prior to payment by someone independent of payroll preparation and timekeeping. There were no documented compensating controls to offset the lack of segregation of duties or reduce the control deficiency to an acceptable level. The Finance Department has a limited staff size, which requires that the Treasurer handle the payroll function.

Due to these weaknesses in controls, we noted the following deficiencies:

- Three employees were paid incorrectly because hours worked per timesheets did not agree to hours paid.
  - During the pay period 2/11/15 through 2/24/15, the county closed the offices due to the inclement weather. Two employees had total hours for the pay period that exceeded 80 hours, yet were not paid straight time for those additional hours because the county closed. The auditors were told that they could not get additional time over 80 hours since they closed the offices.
  - One employee was paid for more than hours worked.
- One employee's salary exceeded the amount approved by Fiscal Court.
- Change orders for three employees receiving pay increases were not properly documented.
  - One change order included the signature of the employee's supervisor and Treasurer, but not the County Judge/Executive.
  - One pay increase was documented by correspondence from employee's supervisor; no signatures noted.
  - One change order included only the signature of the Treasurer, not the supervisor or County Judge/Executive.
- Negative bank balances noted in the payroll fund account (See Finding 2015-004).

The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the county's assets and ensure accurate financial reporting. Adequate segregation of duties would prevent the same person from having all the significant roles in the preparation of payroll. Lack of segregation of duties increases the Fiscal Court's risk of misappropriation of assets, errors, and inaccurate financial reporting. In addition, KRS 64.530(1) requires the fiscal court of each county to annually fix the compensation of every county officer and employee except the officers named in KRS 64.535 and the county attorney and jailer. This list as approved by the Fiscal Court should be documented in the Fiscal Court Order Book. The Fiscal Court should also approve any changes in compensation. The Fair Labor Standards Act requires that all covered, nonexempt employees be paid at least the minimum wage for all hours worked.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, we recommend the Fiscal Court separate the duties of the payroll functions to the extent possible. If these duties cannot be segregated due to limited staff or limited budget, then strong oversight should be provided to the employee responsible for these duties. An independent county person should compare payroll data to payroll reports for accuracy. The independent person should then sign off on the payroll reports that this compensating control was completed.

*County Judge/Executive Reagan Taylor's Response: The Finance Department has modified the payroll process to ensure there is an adequate number of employees involved in the checks and balance process from the point of timesheet entry to the payout of the check to the employee.*

**MADISON COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Fiscal Year Ended June 30, 2015**  
**(Continued)**

**Section II: Findings - Financial Statement Audit (Continued)**

2015-009 Madison County Fiscal Court Did Not Have Sufficient Controls Over Program Income

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The Fiscal Court received program income associated with the Chemical Stockpile Emergency Preparedness Program (CSEPP) that was not used according to federal requirements (See Finding 2015-001). The Fiscal Court was collecting annual maintenance fees for radios that were purchased using federal CSEPP funds. This practice is permitted; however, the program income that was being received was not utilized to offset allowable expenses to the federal program. The funds were being used by the county to fund purchases prior to being reimbursed by the grantor. The funds were also being used by a former employee to misappropriate funds for unallowable purposes. The cause of this control weakness appears to have been a misunderstanding of the program income requirements by program managers. The county has been collecting these fees for years and did not realize they were not utilizing them appropriately. In addition to being noncompliant to federal regulation, the failure to utilize the funds as required by federal regulation left funds available for misappropriation. 2 CFR 200.307 requires program income to be deducted from program outlays unless otherwise specified by the federal grantor. It is recommended that the Fiscal Court implement controls over program income to ensure that it is handled in a manner that is compliant with federal regulations.

*County Judge/Executive Reagan Taylor's Response: The Madison County Fiscal Court had identified prior to the audit this issue in conjunction with the theft in the CSEPP program. We implemented a new control system in April 2015.*

**Section III: Findings And Questioned Costs - Major Federal Awards Program Audit**

2015-010 Madison County Internal Control Procedures Over Expenditures Failed Resulting in Questioned Costs (See Finding 2015-001)

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*Federal Program: CFDA 97.040*

*Name of Federal Agency: U.S. Department of Homeland Security*

*Compliance Requirements: Activities Allowed or Unallowed and Allowable Costs/Cost Principles*

*Type of Finding: Material Weakness*

*Amount of Questioned Costs: \$34,489*

*Opinion: Madison County did not comply with federal requirements regarding this compliance requirement resulting in a Qualified Opinion.*

2015-011 Madison County Fiscal Court Did Not Have Sufficient Controls Over Program Income (See Finding 2015-009)

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*Federal Program: CFDA 97.040*

*Name of Federal Agency: U.S. Department of Homeland Security*

*Compliance Requirements: Program Income*

*Type of Finding: Significant Deficiency*

*Amount of Questioned Costs: \$0*

**Section IV: Summary Schedule of Prior Audit Findings**

None.

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**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**MADISON COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2015**





CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM  
MADISON COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2015

The Madison County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
\_\_\_\_\_

County Judge/Executive

  
\_\_\_\_\_

County Treasurer

